10 July 1973

MEMORANDUM FOR THE RECORD

1. In light of the reorganization currently underway in OL and changes in concepts which are to be implemented in the near future in terms of such things as blanket purchase agreements, requirements contracts, etc., now might be the time to give further consideration to a subject we have discussed several times during the past few months--namely, review of PPA/PRA procedures for possible change. However, since anything we might do to change PPA/PRA--and my thoughts are outlined below--would obviously be affected by the above-noted changes in both supply and procurement, it may be well to approach this general subject on a modified task force basis in which a team, consisting of Supply Division, Procurement Division, and OL/EO/BF, could collaborate to study this proposal and to come up with recommendations that could then be made the subject of a broader review with OF and OPPB.

2. The proposal outlined below is just one approach. It is recognized that there are others, some of which have been studied in the past, such as use of "revolving" funds. Thus, this proposal should be considered as a "take-off" point leading to development and refinement of other possible courses of action.

3. The specifically discussed change contemplates restriction of the PPA and PRA to items in the OL cognizant and/or managed inventories. This would mean:

a. All requisitions for items requiring direct procurement be recorded by the requesting component as a charge to its funds allotment. Neither PPA nor PRA would be used.

b. All requisitions for stock procurement initiated by OTS and O/C for their respective cognizant inventories for which they have total Agency budget responsibility be recorded as a charge to their funds allotment. PPA would not be cited on these requisitions.

c. The only requisitions which would be charged to PPA would be those initiated by OL and those for accommodation/reimbursable procurement action.

d. All requisitions submitted by OTS and O/C for material to be drawn from their respective cognizant inventories would be costed

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to the appropriate FAN but without charge to PRA. (Note: Since the present system does not recognize this situation, one solution would be for OF to establish a unique general ledger account for this purpose.)

e. The only customer requisitions on which PRA certification would be required would be for items in the OL cognizant and/or managed inventories.

(1) Although the proposal would have OL cognizant and/or managed inventories charged to PPA, consideration should be given to review the inventories to identify those items that are solely for single-customer use, such as the Administrative Stock Account, Printing Services Division paper, etc. Items carried in the inventory for only one customer should probably be treated as direct rather than stock procurement.

(2) It would be possible also to eliminate from PPA the majority of accommodation/reimbursable procurement actions. However, in view of the volume and size of the transactions (which are about $2.0 million a year), it probably would be more practical from an Agency workload standpoint to handle these as a common function by OL. This would avoid imposing on OF, OPPB, and the operating components the cumbersome procedures involved in allotment and control of separate allotments which are issued for reimbursable transactions of an operating component. In view of the many problems separate allotment would have created in property procurement, and especially for stock replenishment of items sold, OPPB has granted a special exception to OL and such funds are allotted as part of the PPA.

4. The Financial Property Accounting (FPA) system in the Agency was developed in the mid 1950's in compliance with legal requirements for monetary property accounting records and in response to Government efforts, at that time, toward cost-based-budgeting. Although the cost-based-budget concept is now dormant, the budget people seized upon FPA as the means to solving the old budget problem of relating obligation authority for centrally purchased, common use items with program budgeting. That is, the FPA system enables identification of cost and customer (FAN) for property drawn from inventory. This capability enabled completion of the budgetary accounting cycle--indirectly relating obligations against budget line items. This was the birth of PPA and PRA.

5. Initially all Agency supplies and equipment acquisition, use, and disposal actions were processed through the FPA accounts and, therefore, PPA/PRA controlled all materiel acquisitions and issues. Time, however, has seen a gradual erosion of this initial principle so that today we are operating under a fragmented system.

a. The major break in the integrated PPA/PRA system occurred 1 July 1970 when a change in Agency policy provided that obligations for

local procurement of materiel by Type II or Type III stations were to be charged to funds allotment of the operating components rather than being charged to the local PPA. (Note: For property accountability purposes, non-expendable property, even though purchased locally, is still required to be picked up in the stations' property records.)

b. In recent years continued redesignation of stations from Type I to Type II and the close-down of [redacted] 25X1

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c. At Headquarters there are several exceptions to the PPA/PRA procedures for property acquisition. Examples are materiel which was procured by the SPU, procurement action on behalf of activities funded under G accounts, procurement through petty cash funds, and other miscellaneous procurement of items not controlled by the Depot (e.g. POL for the Motor Pool).

d. A recent major change occurred with adoption by the Agency of inventory budgeting, effective 1 July 1973, for OTS and O/C cognizant materiel and assumption of complete budget responsibility for cognizant inventories.

6. In reviewing the changes which have occurred in the past three years--including the Agency's withdrawal from SEA and significantly reduced requirements for materiel support--it appears that the logical extension of the evolution would restrict PPA/PRA procedures to those stock items where customer identification is unknown at the time of purchase--i.e. the OL cognizant and/or OL managed inventories.

7. Proposal for change and adoption of a new policy requires a candid statement of advantages and disadvantages. Some of these are:

a. <u>Disadvantages</u>

(1) Loss by OL of centralized statistical information on procurement effected through OL sources--albeit that even now the system does not include 100% of OL controlled procurement. (See paragraph 5.c. above) This disadvantage is probably only temporary since full implementation of computer programs (CONIF and SIPAS) should be able to produce management-oriented statistics that are accurate and timely.

(2) Probable creation of additional workload at the
25X1 [redacted] since present accounting procedures for funds would require preparation of T/A's (Transfers of Account) for all direct procurement actions. At present a summary monthly report of "issues"
25X1 is prepared by [redacted] and transmitted to headquarters for recording. If the proposal were to be adopted, the OF may be able to develop a streamlined procedure to overcome this problem.

(3) Possible loss of flexibility in adding or deleting items in the OL cognizant and/or managed inventories. The customer is not now concerned as to whether an item is in stock or requires direct procurement. He buys and is charged PRA for both. Thus the Supply Division has the funds available to introduce or to increase levels of inventory and to delete items from stock as experience or judgment dictate. If the customer were to buy PRA only for items he knows are in the OL inventories, limited funds would inhibit change and the possibility of pricing or timing of delivery advantages.

(4) Although operating components with field offices have been faced with the task of estimating amounts of materiel to be acquired locally or from the logistics system (Type I stations) as the basis for PRA buys, most of the operating components at headquarters are not faced with this problem since all procurement is effected by OL for them. This procedure would place the responsibility on all components to make such judgments. In absence of definitive line item requirements in many offices and lack of information as to what is stock versus direct, we could be faced with having to manage a PPA for stock procurement which is based on "guesstimates".

(5) Elimination of central records on obligations for materiel procurement. The files of OL/EO/BF are, in effect, a ready "reference library" used as the information base for responding to questions and/or inquiries by Supply Division and OF personnel.

(6) Loss to the OL procurement system of the follow-up service, a byproduct of OL/EO/BF's responsibility for verifying over-age commitments.

b. Advantages

(1) Reduce the scope of a procedure which is complicated, complex, and understood by very few people.

(2) Eliminate a significant portion of quasi-duplicate obligation accounting efforts and records. At the present time OL/EO/BF has responsibility for commitment/obligation controls over the total PPA. The proposal would eliminate much of the paper workload in OL/EO/BF. This, however, would not be merely shifting work from one budget office to another. Operating components must now treat requisitions in a manner similar to any other obligating documents--i.e. as a liability against an appropriation authority (PRA). Their workload might even decrease since at the present time all detailed PRA records are maintained manually with only summary FAN totals reported monthly to OF for incorporation in the Agency's accounting records. If requisitions for direct procurement were the basis for recording fund obligations by the operating components,

the obligation and expenditure information would be processed through the computerized detailed accounting and budgetary records.

(3) Eliminate some paper workload (amount unknown to undersigned) at the Depot. At the present time all materiel received as the result of direct procurement is "washed" through the FPA records of the Depot. This would no longer be required under the proposal to handle this type of procurement as a direct fund charge to the customer.

(4) Relieve the D/L of a financial management responsibility over which he does not enjoy co-equal authority.

(a) An analogy which comes to mind is that of a manager (D/L) who operates a hardware store to which customers (operating components) come to buy items. The manager has a capital account out of which he buys his inventory of items (stock procurement) which he thinks the customer will buy from him. Since the manager operates in a tight money market (appropriation limitations) and can't borrow from the bank (OPPB), he requires his customers to deposit "key money" (PRA). Since he cannot anticipate all the items his customers might buy, he agrees that if he doesn't have it on the shelf (inventory) he will go out and buy it as a special order (direct procurement). To meet the highly specialized requirements of some customers, he grants concession rights to specialty enterprises (OTS and O/C) and provides them funding capital. If during the year his customers change their minds on the amount of materiel they will buy and on the amount in the deposit account, he must be able to refund the cash at any time.

(b) The change proposed for FPA/PRA would have the manager tell his customers that he will no longer require an advance deposit for all purchases for the year but will inst~~r~~ead require deposit only for items he carries in his store. He will continue to arrange for special buys, but he will no longer pay the bill himself but will send it to the customer to pay. Next the manager tells his concessionaires that he will no longer provide the capital for their inventory. They must now furnish their own funds and handle their own bookkeeping. He has thus limited his financial responsibility to only those items he carries in inventory and over which he can exercise management prerogatives of timing, amounts, and quantities for purchase.

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Chief, OL/MO/BF

cc: D/L

NOTES: PPA/PRA

PARA 3a. Agree: 1000% - All burden for under encumbrance/ over obligation would rest square on the component B&F office.
OL would still be concerned with trans costs (STA).

3b. Believe all stock procurements must pass through and be taken up in property system. We are not ready to have two systems for stocked items, i.e., OL Cog stock PPA; others - No.

3d. If PPA not used by O/C and OTS at time of procurement, materiel costed then and we're in a Type II mode - FPA reduced to money accountability - basically at a central control - property accountability at local level OC and OTS - I disagree with this suggestion.

3e(1) Problems are storage space and procurement leadtimes, i.e., OJCS could not possibly store sufficient machine paper to ensure no outtages and accrue maximum savings by quantity buy.

7a. SPU is no more.

(1) CONIF II - Only bilateral contracts
Only info - PO's, DO's, BPA's statistics can only be gotten from PPA/PRA records - Perhaps CONIF II could be expanded but time not on our side - Estimate 1-1/2 - 2 years to reprogram and implement.

(2) Consider this minor - We can either do as Helen suggests or the more than likely avenue of closing [redacted] and thereby eliminating the problem. (Of course, could always be limited to a stock location and resupply point.) 25X1

(3) We would, of course, limit some flexibility, however, stock replenishment is now restricted to a percentage of total PPA (sic). The PPA break could be done at PPB with the stock % to OL/SD and the balance to remain funds and the component so notified. Certain ground rules/Supply discipline must be established for control.

(4) OL/SD could help by distributing stock lists although they could never be <u>real</u> current.

(5) OL/SD is basically concerned with stock procurements. OL/B&F info is desireable but not absolute nor mandatory.

(6) Follow-up by exception is the order of the day - A time limit could be established for all commitments. OL/PD would be responsible for their own house without follow-up jobs from OL/B&F.

7b(1) Also unnecessary - The philosophy of PRA was to control (record is better) property costs of the Agency. This premise has been breached to the extent that it is no longer valid in my opinion. In addition, property costs can be controlled by any combination of PRA and funds allotments.

(2) Direct buys - funds could well be obligated at component level ILO PRA and liquidated in a similar fashion. Workload in OL/B&F would be reduced by the % of direct buys, that is, if stock still remained within.

(3) As stated earlier, believe stock should be processed through PPA for Type I only. All others (direct) funds.

(4) Agree - except in (b) where stock is funded separately - I am convinced that all Type I stock be PPA - This is the only way (at present and forseeable future) that one element (OL) can maintain an accurate computerized data base that serves logistics managers efficiently in the management of materiel.

I think we can materially improve and at the same time reduce workload in the administration of the FPA system by extending the "funds for direct buy" to Headquarters components as we have done for overseas stations and bases. We have extended the "funds for materiel" to O/S Type II and III, and since all PIU's are now Type II's in Headquarters area, we can do the same at considerable advantage.

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Q. If we retain [redacted] and direct buys are processed as funds (T/A's), will this increase workload? Also, "direct buys" at Headquarters for O/S, will this increase workload in OL/B&F?